

APPENDIX 4E

PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

31 DECEMBER 2021 RESULTS FOR ANNOUNCEMENT TO THE MARKET

(All comparisons to year ended 31 December 2020)

	\$USD	up/down	% movement
Revenue from ordinary activities	\$696,267	down	(0.84%)
Loss after tax from ordinary activities attributable to members	(\$19,732,540)	down	(58.54%)
Loss after tax attributable to members	(\$19,732,540)	down	(58.54%)

Dividend information

	Amount per security \$USD	Franked amount per security \$USD	Tax rate for franking credit
Dividend	Nil	Nil	N/A
Previous corresponding dividend	Nil	Nil	N/A

Net tangible asset backing

	31 Dec 2021 \$USD	31 Dec 2020 \$USD
Net tangible asset per share of common stock	\$0.17	\$0.23
Net tangible asset per CDI	\$0.17	\$0.23

- Annual financial results:**

This report is based on the accompanying consolidated 2021 Financial Statements which have been audited by Baker Tilly Virchow Krause, LLP with the Independent Auditor's Report included in the 2021 Financial Statements.

- Changes in control over entities:**

There were no entities over which control has been gained or lost during 2021.

- Details of dividends and dividend reinvestment plans:**

No dividends have been declared or proposed.

- Details of associates or joint ventures:**

N/A

- Set of accounting standards used in compiling the report:**

The audited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (US GAAP) and are denominated in U.S. dollars.

- **Details of audit disputes or audit qualification:**

None

A commentary on the results for the period:

The net loss for the year increased to \$19,732,540 compared to \$12,446,473 for the previous corresponding period due primarily to increased expenses associated with staffing expansion and research and development costs.

Total revenue for the year was \$696,267 compared to \$702,161 for the previous corresponding period.

The Company had cash and cash equivalents of \$18,516,208 at 31 December 2021 compared to \$25,139,812 at 31 December 2020. Net cash flow from financing activities for the year was \$11,586,304.

Please refer to our audited consolidated financial statements, with accompanying notes, which are attached hereto.

For personal use only

IMRICOR MEDICAL SYSTEMS, INC.

Minneapolis, Minnesota

Including Independent Auditors' Report

As of and for the years ended December 31, 2021 and 2020

IMRICOR MEDICAL SYSTEMS, INC.

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Independent Auditors' Report

To the Stockholders and Board of Directors of
Imricor Medical Systems Inc.

Opinion

We have audited the financial statements of Imricor Medical Systems, Inc., which comprise the balance sheets as of December 31, 2021 and 2020 and the related statements of operations, stockholders' equity and cash flows for the years then ended and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Imricor Medical Systems, Inc. as of December 31, 2021 and 2020 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Imricor Medical Systems, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Substantial Doubt About the Company's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has incurred recurring losses from operations, has an accumulated deficit and has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Imricor Medical System Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Imricor Medical System Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Imricor Medical System Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Baker Tilly US, LLP

Minneapolis, Minnesota
February 23, 2022

IMRICOR MEDICAL SYSTEMS, INC.

BALANCE SHEETS

As of December 31, 2021 and 2020

ASSETS		
	2021	2020
CURRENT ASSETS		
Cash	\$ 18,516,208	\$ 25,139,812
Accounts receivable	94,735	223,237
Inventory	2,582,813	3,069,920
Prepaid expenses and other current assets	<u>1,505,556</u>	<u>491,628</u>
Total Current Assets	22,699,312	28,924,597
ACCOUNTS RECEIVABLE-LONG TERM	201,544	238,749
PROPERTY AND EQUIPMENT, NET	2,951,924	3,094,721
OTHER ASSETS	363,676	515,984
OPERATING LEASE RIGHT OF USE ASSETS	<u>647,951</u>	<u>795,365</u>
TOTAL ASSETS	<u>\$ 26,864,407</u>	<u>\$ 33,569,416</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 686,724	\$ 529,132
Accrued expenses	1,354,428	1,068,908
Current portion of contract liabilities	175,286	40,202
Current portion of operating lease liabilities	186,498	189,143
Current portion of finance lease liability	332,157	8,886
Current portion of financing obligation	<u>-</u>	<u>462,961</u>
Total Current Liabilities	2,735,093	2,299,232
LONG-TERM LIABILITIES		
Other long-term liabilities	-	67,395
Contract liabilities, net of current portion	509,604	549,806
Operating lease liabilities, net of current portion	992,319	1,168,644
Finance lease liability, net of current portion	226,677	19,274
Financing obligation, net of current portion	<u>-</u>	<u>649,015</u>
Total Liabilities	<u>4,463,693</u>	<u>4,753,366</u>
COMMITMENTS AND CONTINGENCIES (NOTE 6)		
STOCKHOLDERS' EQUITY		
Preferred stock, \$0.0001 par value:		
25,000,000 shares authorized and 0 shares outstanding as of both December 31, 2021 and 2020	-	-
Common stock, \$0.0001 par value:		
535,000,000 shares authorized as of both December 31, 2021 and 2020 and 143,234,637 and 125,549,550 shares issued and outstanding as of December 31, 2021 and 2020, respectively	14,324	12,556
Additional paid-in capital	94,991,107	81,675,671
Accumulated deficit	<u>(72,604,717)</u>	<u>(52,872,177)</u>
Total Stockholders' Equity	<u>22,400,714</u>	<u>28,816,050</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 26,864,407</u>	<u>\$ 33,569,416</u>

IMRICOR MEDICAL SYSTEMS, INC.
STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2021 and 2020

REVENUES	2021	2020
Product revenues	\$ 371,340	\$ 468,263
Service revenue	69,223	38,009
Consulting revenue	-	100,000
Government contract revenue	255,704	95,889
Total Revenue	696,267	702,161
 COSTS AND EXPENSES		
Cost of goods sold	2,592,191	1,099,833
Sales and marketing	2,868,360	1,683,653
Research and development	9,675,493	5,546,324
General and administrative	5,819,622	4,328,611
Total Costs and Expenses	20,955,666	12,658,421
Loss from Operations	(20,259,399)	(11,956,260)
 OTHER INCOME (EXPENSE)		
Interest income	16,725	29,237
Employee retention credit (NOTE 1)	757,714	-
Foreign currency exchange loss	(42,990)	(198,398)
Interest expense	(108,849)	(300,637)
Other expense	(95,741)	(20,415)
Total Other Income (Expense)	526,859	(490,213)
 NET LOSS	 \$ (19,732,540)	 \$ (12,446,473)
 EARNINGS PER SHARE:		
Basic and diluted loss per common share	\$ (0.15)	\$ (0.11)
Basic and diluted weighted average shares outstanding	130,801,707	110,137,915

IMRICOR MEDICAL SYSTEMS, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2021 and 2020

	Common Stock		Additional		Total
	Shares	Amount	Paid-in Capital	Accumulated Deficit	Stockholders' Equity
BALANCES, December 31, 2019	92,682,535	\$9,268	\$47,449,853	\$(40,425,704)	\$7,033,417
Stock-based compensation expense	-	-	821,952	-	821,952
Exercise of warrants, net of fees	406,849	41	295,384	-	295,425
Exercise of stock options, net of fees	413,333	41	174,154	-	174,195
Issuance of royalty conversion shares	7,197,634	720	(720)	-	-
Issuance of common stock, net of issuance costs paid in cash of \$1,863,233	24,849,199	2,486	32,935,048	-	32,937,534
Net loss	-	-	-	(12,446,473)	(12,446,473)
BALANCES, December 31, 2020	125,549,550	\$12,556	\$81,675,671	\$(52,872,177)	\$28,816,050
Stock-based compensation expense	-	-	1,149,598	-	1,149,598
Exercise of stock options, net of fees	185,259	18	87,828	-	87,846
Issuance of common stock, net of issuance costs paid in cash of \$716,863	17,499,828	1,750	12,078,010	-	12,079,760
Net loss	-	-	-	(19,732,540)	(19,732,540)
BALANCES, December 31, 2021	143,234,637	\$14,324	\$94,991,107	\$(72,604,717)	\$22,400,714

IMRICOR MEDICAL SYSTEMS, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (19,732,540)	\$ (12,446,473)
Adjustments to reconcile net loss to net cash flows from operating activities		
Depreciation	689,114	528,089
Stock-based compensation expense	1,149,598	821,952
Loss on disposal of property and equipment	82,970	-
Change in inventory reserves	668,464	209,852
Foreign currency exchange loss	42,990	198,398
Changes in assets and liabilities		
Accounts receivable	154,062	71,378
Inventory	(181,357)	(2,059,156)
Prepaid expenses and other assets	(823,616)	(24,958)
Accounts payable	148,762	(281,175)
Accrued expenses	218,125	768,806
Contract liabilities	94,882	(17,402)
Net Cash Flows from Operating Activities	<u>(17,488,546)</u>	<u>(12,230,689)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment of security deposit	-	(32,146)
Equity investment	(69,560)	-
Purchases of property and equipment	(625,745)	(741,886)
Net Cash Flows from Investing Activities	<u>(695,305)</u>	<u>(774,032)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of options and warrants	87,846	469,620
Payments on financing obligation	(337,804)	(374,023)
Proceeds from issuance of common stock, net	12,079,760	32,937,534
Payments on finance lease liability	(243,498)	(8,420)
Net Cash Flows from Financing Activities	<u>11,586,304</u>	<u>33,024,711</u>
Net Change in Cash	<u>(6,597,547)</u>	<u>20,019,990</u>
CASH - Beginning of Year	25,139,812	5,048,893
Effect of foreign currency exchange rate changes on cash	(26,057)	70,929
CASH - End of Year	<u>\$ 18,516,208</u>	<u>\$ 25,139,812</u>
Supplemental cash flow disclosure		
Cash paid for interest	<u>\$ 176,674</u>	<u>\$ 300,637</u>
Noncash investing and financing activities		
Leasehold improvements paid by landlord	<u>\$ -</u>	<u>\$ 595,534</u>
Operating lease right of use asset	<u>\$ -</u>	<u>\$ 606,277</u>

IMRICOR MEDICAL SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
As of and for the years ended December 31, 2021 and 2020

NOTE 1 - Summary of Significant Accounting Policies

Nature of Operations and Basis of Presentation

Imricor Medical Systems, Inc. ("Imricor" and the "Company") is a U.S.-based medical device company that seeks to address the current issues with traditional x-ray-guided ablation procedures through the development of Magnetic Resonance Imaging (MRI) guided technology. Incorporated in the State of Delaware in 2006, the Company's principal focus is the design, manufacturing, sale and distribution of MRI-compatible products for cardiac catheter ablation procedures. Imricor's unique technology utilizes an intellectual property (IP) portfolio that includes technology developed in-house, as well as IP originating from Johns Hopkins University and Koninklijke Philips N.V. The Company is headquartered in Burnsville, Minnesota, where it has development and manufacturing facilities. The Company's primary product offering, the Vision-MR Ablation Catheter is specifically designed to work under real-time MRI guidance, with the intent of enabling higher success rates along with a faster and safer treatment compared to conventional procedures using x-ray guided catheters. Historically, Imricor generated revenue from licensing some of its IP for use in implantable devices and performing contract research but expects to generate most of its future revenue from the sale of the MRI-compatible products it has developed for use in cardiac catheter ablation procedures (comprising single-use consumables and capital goods). On January 13, 2016, Imricor obtained CE mark approval to place one of its key products, the Advantage-MR EP Recorder/Stimulator System, on the market in the European Union. On January 23, 2020, the Company obtained CE mark approval for its other key products, the Vision-MR Ablation Catheter (with an indication for treating type I atrial flutter) and the Vision-MR Dispersive Electrode.

The Company has prepared the accompanying financial statements and notes in conformity with accounting principles generally accepted in the United States of America (US GAAP).

The Company's financial statements and notes are presented in United States dollar, which is also the functional currency.

Impact of COVID-19 Pandemic

During the years ended December 31, 2021 and 2020, the Company's revenue was impacted by the COVID-19 pandemic. The Company has continued to observe intermittent suspension of many elective procedures associated with various surges in COVID-19. Its products treat conditions that are considered elective. The impact of COVID-19 has varied by region and by healthcare facility. Lab adoption and procedure volumes have continued to be constrained. While restrictions on elective procedures have now been lifted, the most seriously ill patients are being prioritized over elective procedures, including procedures with our product. There have been shortages of personnel at hospitals which has hampered the ability to perform our procedures. While much of Europe is moving to exit emergency measures, we are unable to accurately predict the full impact that COVID-19 will have on our results from operations, financial condition, liquidity, and cash flows due to numerous uncertainties, including the duration and severity of the pandemic and containment measures, the emergence of new variants, and the impact on our customers and our vendors, for an indefinite period of time. Our future results of operations and liquidity could be adversely impacted by delays in payments from customers, supply chain disruptions, expiration of inventory, product design changes, and uncertain demand.

We will continue to monitor the situation and take further actions that we determine are in the best interest of our stakeholders.

Cash

Cash consists of funds in depository accounts. The Company holds cash with high quality financial institutions and at times, such balances may be in excess of federal insurance limits.

IMRICOR MEDICAL SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
As of and for the years ended December 31, 2021 and 2020

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Accounts Receivable and Customer Concentrations

Accounts receivable are unsecured, are recorded at net realizable value, and do not bear interest except if a revenue transaction has a significant financing component. The Company makes judgments as to its ability to collect outstanding receivables based upon significant patterns of uncollectability, historical experience, and managements' evaluation of specific accounts and provides an allowance for credit losses when collection becomes doubtful. The Company performs credit evaluations of its customers' financial condition on an as-needed basis. Payment is generally due 30 days from the invoice date and accounts past 30 days are individually analyzed for collectability. When all collection efforts have been exhausted, the account is written off against the related allowance. To date the Company has not experienced any significant write-offs or significant deterioration of its accounts receivable aging, and therefore, no allowance for doubtful accounts was considered necessary as of December 31, 2021 or 2020. During the year ended December 31, 2021, the Company had sales from 3 customers that accounted for 67% of revenue and accounts receivable from 3 customers that represented 96% of the accounts receivable balance. During the year ended December 31, 2020, the Company had sales from 5 customers that accounted for 80% of revenue and accounts receivable from 2 customers that represented 96% of the accounts receivable balance.

Accounts receivable includes unbilled receivables of \$37,205 and \$38,321 as of December 31, 2021 and 2020, respectively, which represents the current portion of minimum royalties due to the Company during the following year. The accounts receivable-long term relates to minimum royalties due to the Company for years ending after December 31, 2022.

Inventory

Inventories are stated at the lower of cost or net realizable value, with cost determined on the first-in, first-out ("FIFO") method. The establishment of allowances for excess and obsolete inventories is based on historical usage and estimated exposure on specific inventory items. Inventories are as follows as of December 31, 2021 and 2020:

	December 31,	
	2021	2020
Raw materials	\$ 1,476,630	\$ 1,216,964
Work in process	549,303	423,666
Finish goods	1,512,106	1,716,052
Less: excess and obsolescence reserves	(955,226)	(286,762)
	<u>\$ 2,582,813</u>	<u>\$ 3,069,920</u>

The Company utilizes significant estimates in determining the realizable value of its inventory, including the future revenue forecasts that will result in product sales. These estimates have a corresponding impact on the inventory values recorded as of December 31, 2021 and 2020. Management continually evaluates the likelihood of future sales based on current economic conditions, restrictions on ability for customers to perform elective procedures, expiration timing of products, and product design changes prior to sale of product on hand. If actual conditions are less favorable than those we have projected, we may need to increase our reserves for excess and obsolete inventories. Any increases in our reserves will adversely impact our results of operations. The establishment of a reserve for excess and obsolete inventory establishes a new cost basis in the inventory. Future sales of inventory on hand at December 31, 2021 will result in recognition of cost of sales based on initial inventory costs, net of reserves taken for expected realization values.

The Company recognizes an expense for commitments of inventory purchases that will not provide future economic benefit when that is known. Based upon estimates of future demand for its products, and the timing of future generation products, the Company recorded an expense of \$212,931 for the year ended December 31, 2021, which is included in Cost of goods sold on the statement of operations and Accrued expenses on the balance sheet.

IMRICOR MEDICAL SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
As of and for the years ended December 31, 2021 and 2020

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Property and Equipment

Property and equipment are stated at cost. Additions and improvements that extend the lives of assets are capitalized, while expenditures for repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is computed on a straight-line basis over the shorter of the estimated useful lives of the related assets or life of the lease.

The standard estimated useful lives of property and equipment are as follows:

Office furniture and equipment	5 years
Lab and production equipment	5 years
Computer equipment	3 years
MRI scanner	7 years
Leasehold improvements	Lesser of useful life or remaining lease term

The Company reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the impairment tests indicate that the carrying value of the asset, or asset group, is greater than the expected undiscounted cash flows to be generated by such asset or asset group, further analysis is performed to determine the fair value of the asset or asset group. To the extent the fair value of the asset or asset group is less than its carrying value, an impairment loss is recognized equal to the amount the carrying value of the asset or asset group exceeds its fair value. The Company generally measures fair value by considering sale prices for similar assets or asset groups, or by discounting estimated future cash flows from such assets or asset groups using an appropriate discount rate. Considerable management judgment is necessary to estimate the fair value of assets or asset groups, and accordingly, actual results could vary significantly from such estimates. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. To date, the Company has not recognized any impairment loss for property and equipment.

Research and Development Costs

The Company expenses research and development costs as incurred.

Other Assets

Other assets on the balance sheet include security deposits related to the Company's operating and financing obligations and an equity investment made during the year ended December 31, 2021.

Other Long-term Liabilities

A certain portion of the Company's share of Social Security tax was deferred in accordance with The Coronavirus Aid, Relief and Economic Security Act and was included in other long-term liabilities for the year ended December 31, 2020.

Patents

Expenditures for patent costs are charged to operations as incurred.

IMRICOR MEDICAL SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
As of and for the years ended December 31, 2021 and 2020

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Income Taxes

Income taxes are recorded under the liability method. Deferred income taxes are provided for temporary differences between financial reporting and tax bases of assets and liabilities. Deferred tax assets are reduced by a valuation allowance to the extent the realization of the related deferred tax asset is not assured.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

Loss per Share

Basic loss per share is computed by dividing net loss by the weighted average shares outstanding during the reporting period. The weighted average common shares outstanding were 130,801,707 and 110,137,915 for the years ended December 31, 2021 and 2020, respectively.

Dilutive net income (loss) per share assumes the exercise and issuance of all potential common stock equivalents in computing the weighted-average number of common shares outstanding, unless their effect is antidilutive. The effects of including incremental shares associated with options are anti-dilutive due to the net loss incurred and are not included in the diluted weighted average number of shares of common stock outstanding for the years ending December 31, 2021 and 2020.

Foreign Currency Exchange Gains (Losses)

During the years ended December 31, 2021 and 2020, the Company had accounts payable that are denominated in both Australian dollars and Euros and cash accounts and accounts receivable denominated in Euros. These assets and liabilities have been translated into U.S. dollars at year-end exchange rates. Foreign currency exchange gains and losses are included in the statements of operations within other income (expense).

Financial Instruments

The carrying amounts for all financial instruments approximate fair value. The carrying amounts for cash, accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments.

Revenue Recognition

The Company recognizes revenue for product sales when its customers obtain control of the products, which occurs at a point in time, in an amount that reflects the consideration that the Company expects to receive in exchange for those goods. Control is transferred to customers when title to the goods and risk of loss transfers, which was upon shipment for products sales recognized.

The Company's product sales contain a single performance obligation and the transaction price is based on invoice price as there is no variable consideration impacting the transaction price.

Sales tax and value added taxes in foreign jurisdictions that are collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from net sales. Product sales include shipment and handling fees charged to customers. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of goods sold.

Revenue from service contracts is recognized over the contract period on a straight-line basis.

IMRICOR MEDICAL SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
As of and for the years ended December 31, 2021 and 2020

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Royalties

On June 1, 2012, the Company licensed certain intellectual property to a customer which included a royalty of 3% of product sales, subject to a minimum of \$50,000 per year. The minimum guaranteed royalties were recognized upon the execution of the license agreement as these proceeds were not variable consideration. The remaining minimum royalty payments to be received, less the portion which represents future interest expected to be received within 12 months is included in Accounts Receivable and the amounts expected to be received in future periods beyond 12 months are included in Accounts Receivable-Long term. Any royalties received in the future which are more than the minimum guaranteed royalty will be recognized when they are earned.

Consulting Revenue

In June 2015, the Company entered into a Joint Research Agreement. The Agreement was amended in August 2017 whereby the Company received an upfront payment of \$100,000 to cover costs incurred in the course of providing certain services, which had been included in Contract liabilities-net of current portion. The agreement was to terminate upon the earlier of completion of the project or five years. The project was not completed and has terminated. Therefore, \$100,000 was recognized as Consulting revenue for the year ended December 31, 2020.

Government Contract Revenue

The Company recognizes revenue for government contracts over time using the "as invoiced" practical expedient.

The Company was awarded a contract with the U.S. government on September 25, 2020 for up to \$399,539 to develop an MRI compatible myocardial biopsy system. The Company recognized \$255,704 and \$95,889 as revenue during the years ended December 31, 2021 and 2020, respectively.

Contract Liabilities

On November 27, 2013, the Company licensed certain intellectual property to a customer in exchange for an upfront non-refundable license fee and milestone payments, which can total up to \$7,000,000. The Company collected \$6,000,000 of these milestone payments, including the non-refundable license fee, on or before October 2016.

\$373,333 is included in long-term contract liabilities as of December 31, 2021 and 2020. The customer sold the portion of the business which held this license in May 2018. The license has been assigned to the purchaser. The project is still on hold with no plans to work on final development during the next 12 months, and therefore, the contract liability is included in long-term liabilities.

Amounts received prior to satisfying the above revenue recognition criteria are recorded as contract liabilities in the accompanying balance sheets, with the contract liabilities to be recognized beyond one year being classified as non-current contract liabilities. As of December 31, 2021 and 2020, the Company had contract liabilities of \$684,890 and \$590,008, respectively.

IMRICOR MEDICAL SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
As of and for the years ended December 31, 2021 and 2020

NOTE 1 - Summary of Significant Accounting Policies (cont.)

The following table sets forth information related to the contract liabilities for the years ended December 31:

	2021	2020
Balance at the beginning of the year	\$ 590,008	\$ 607,410
Decrease from revenue recognized for completion of performance obligations that were included in contract liabilities at the beginning of the period included in:		
Consulting revenue	-	(100,000)
Service revenue	(40,202)	(14,557)
Increase for revenue deferred as the performance obligation has not been satisfied	135,084	97,155
Balance at the end of the year	<u>\$ 684,890</u>	<u>\$ 590,008</u>

Stock-Based Compensation

The Company measures and records compensation expense using the applicable accounting guidance for share-based payments related to stock option awards granted to directors and employees. The fair value of stock options, including performance awards, without a market condition is estimated at the date of grant, using the Black-Scholes option-pricing model. The fair value of stock options with a market condition is estimated at the date of grant using the Monte Carlo Simulation model. The Black-Scholes and Monte Carlo Simulation valuation models incorporate assumptions as to stock price volatility, the expected life of options or awards, a risk-free interest rate and dividend yield.

Compensation expense is recognized on a straight-line basis over the vesting period for all awards, net of an estimated forfeiture rate, resulting in the recognition of compensation expense for only those shares expected to vest. Compensation expense is recognized for all awards over the vesting period to the extent the employees or directors meet the requisite service requirements, whether or not the award is ultimately exercised. Conversely, when an employee or director does not meet the requisite service requirements and forfeits the award prior to vesting, any compensation expense previously recognized for the award is reversed.

See **NOTE 7** for further details and assumptions regarding the Black-Scholes pricing model.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Employee retention credit

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law providing numerous tax provisions and other stimulus measures, including an employee retention credit ("ERC"), which is a refundable tax credit against certain employment taxes. The Taxpayer Certainty and Disaster Tax Relief Act of 2020 and the American Rescue Plan Act of 2021 extended and expanded the availability of the ERC.

IMRICOR MEDICAL SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
As of and for the years ended December 31, 2021 and 2020

NOTE 1 - Summary of Significant Accounting Policies (cont.)

The ERC is calculated as a percentage of qualified wages (as defined in the CARES Act, as amended) paid by an eligible employer. The Company qualified for the ERC as it experienced a significant decline in gross receipts (for 2020, defined as a 50% decline in gross receipts when compared to the same calendar quarter in 2019, and for 2021, defined as a 20% decline in gross receipts when compared to the same quarter in 2019). As a small employer, all of the Company's otherwise qualified wages were eligible for the ERC. For 2020, the ERC equaled 50 percent of an employee's qualified wages up to \$10,000 per employee per calendar quarter with a maximum annual credit for each employee of \$5,000. For 2021, the ERC equaled 70 percent of an employee's qualified wages up to \$10,000 per employee per calendar quarter with a maximum annual credit of \$21,000 for each employee. The Company determined that it was eligible for the ERC as follows:

	Total
Quarter ended September 30, 2020	\$ 269,654
Quarter ended December 31, 2020	22,995
Quarter ended September 30, 2021	465,065
Total	<u>\$ 757,714</u>

As it relates to the 2020 amounts, the Company applied for the ERC by amending its previously filed forms 941 and, as a result, the Company has accounted for this government grant by way of analogy to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 410, Asset Retirement and Environmental Obligations. ASC 410-30-35-8 indicates that a claim for recovery should be recognized only when the claim is probable of recovery as defined in ASC 450-20-25-1 (i.e. Contingencies). Accordingly, the Company believes that the recovery of employment tax amounts previously paid is probable and, therefore, has recorded amounts shown above.

As it relates to the 2021 amounts, the Company has elected to account for the credit as a government grant. U.S. GAAP do not include grant accounting guidance for for-profit entities, therefore, the Company has elected to follow the grant accounting model in International Accounting Standard (IAS) 20, Accounting for Government Grants and Disclosure of Government Assistance. In accordance with IAS 20, the Company cannot recognize any income from the grant until there is reasonable assurance (similar to the "probable" threshold in U.S. GAAP) that any conditions attached to the grant will be met and that the grant will be received. Once it is reasonably assured that the grant conditions will be met and that the grant will be received, grant income is recorded on a systematic basis over the periods in which the Company recognizes the payroll expenses for which the grant is intended to compensate. Income from the grant can be presented as either other income or as a reduction in the expenses for which the grant was intended to compensate.

During the year ended December 31, 2021, the Company recorded ERC benefits of \$757,714 in other income (expense) on the statements of operations. The receivable is included in Prepaid expense and other current assets on the balance sheet as of December 31, 2021.

IMRICOR MEDICAL SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
As of and for the years ended December 31, 2021 and 2020

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Recent Accounting Pronouncement

During June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. During November 2018, April 2019, May 2019, and November 2019, the FASB also issued ASU No. 2018-19, Codification Improvements to Topic 326, Financial Instruments - Credit Losses; ASU No. 2019-04, Codification Improvements to Topic 326, Financial Instruments - Credit Losses; ASU No. 2019-05, Targeted Transition Relief and ASU No. 2019-11, Codification Improvements to Topic 326, Financial Instruments - Credit Losses. ASU No. 2018-19 clarifies the effective date for nonpublic entities and that receivables arising from operating leases are not within the scope of Subtopic 326-20, ASU Nos. 2019-04 and 2019-05 amend the transition guidance provided in ASU No. 2016-13, and ASU No. 2019-11 amends ASU No. 2016-13 to clarify, correct errors in, or improve the guidance. ASU No. 2016-13 (as amended) is effective for annual periods and interim periods within those annual periods beginning after December 15, 2022. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Company is currently assessing the effect that ASU No. 2016-13 (as amended) will have on its results of operations, financial position and cash flows.

Subsequent Events

For the year ended December 31, 2021, the Company evaluated, for potential recognition and disclosure, events that occurred prior to the issuance of the financial statements through February 23, 2022.

NOTE 2 – Going Concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. The Company incurred losses from operations and negative cash flows from operations for both of the years ended December 31, 2021 and 2020, had an accumulated deficit as of December 31, 2021 and is in need of additional working capital to fund future operations. These conditions raise substantial doubt about its ability to continue as a going concern for twelve months from the report date.

To continue in existence and expand its operations, the Company will be required to, and management plans to, raise additional working capital through an equity or debt offering and ultimately attain profitable operations. If the Company is not able to raise additional working capital, it would have a material adverse effect on the operations of the Company and continuing research and development of its product, as well as commercialization. These financial statements do not include any adjustments related to the recoverability and classification of recorded assets or the amounts and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern.

NOTE 3 – Accrued Expenses

Accrued expenses consist of the following:

	December 31,	
	2021	2020
Compensation	\$ 595,942	\$ 504,372
Firm inventory commitments	212,931	-
Other accruals	545,555	564,536
Total accrued expenses	<u>\$ 1,354,428</u>	<u>\$ 1,068,908</u>

IMRICOR MEDICAL SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
As of and for the years ended December 31, 2021 and 2020

NOTE 4 – Property and Equipment

Property and equipment consisted of the following:

	December 31,	
	2021	2020
Office furniture and equipment	\$ 293,216	\$ 390,160
Lab and production equipment	1,525,226	1,414,136
Computer equipment	264,859	277,821
MRI scanner	1,200,000	1,200,000
Leasehold improvements	1,597,087	1,459,919
	<u>4,880,388</u>	<u>4,742,036</u>
Less: Accumulated depreciation and amortization	(1,928,464)	(1,647,315)
	<u>\$ 2,951,924</u>	<u>\$ 3,094,721</u>

Depreciation expense was \$689,114 and \$528,089 for the years ended December 31, 2021 and 2020, respectively.

NOTE 5 – Leases

Operating Leases

In March 2007, the Company entered into an operating lease agreement for its office and manufacturing space (Gateway) which was originally set to expire in July 2014. The lease was extended through July 2019. In June 2019, the lease was extended through October 2022. In October 2021, the lease was amended to include an increase of approximately 2,465 square feet to a total of approximately 15,115 square feet and an increase to the term for five years starting on the expansion date, which is defined as the earlier of 30 days after the date the landlord delivers possession of the expansion premises or the date that we begin operating our business in the expansion premises. The expansion date is expected to occur in 2022. Upon commencement of the amended lease during 2022, the Company will reallocate the remaining consideration and the lease liability will be remeasured.

The Company entered into a second operating lease agreement for office and warehouse space (Design Center) in August 2018 which commenced on January 1, 2019 and was originally set to expire in March 2026. In February 2020, this lease was amended to include an expansion of space and an increase to the term through May 2030. In addition, the landlord agreed to pay \$593,534 in leasehold improvements. Upon commencement of the lease in June 2020, the Company recorded \$593,534 in leasehold improvements, a \$606,277 right to use asset, and a \$1,201,811 lease liability.

Neither lease includes renewal or extension rights. Both lease agreements require the Company to pay a pro rata portion of the lessor's actual operating expenses which are considered variable lease costs as the expenses are trued up on an annual basis.

As our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the lease commencement date in determining the present value of the lease payments. As of December 31, 2021 and 2020, the remaining lease term was 7.9 and 8.5 years, respectively, and the discount rate was 5.5%. For the year ended December 31, 2021 and 2020, the operating cash outflows from our operating lease for office and manufacturing space was \$221,136 and \$192,166, respectively.

IMRICOR MEDICAL SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
As of and for the years ended December 31, 2021 and 2020

NOTE 5 – Leases (cont.)

As of December 31, 2021, maturities of our operating lease liabilities are as follows:

2022	\$ 236,191
2023	148,966
2024	153,437
2025	158,050
2026	162,805
2027 and thereafter	593,594
Total lease payments	<u>1,453,043</u>
Less interest	<u>(274,226)</u>
Present value of lease liabilities	1,178,817
Less current portion	<u>(186,498)</u>
Operating lease liability, net of current portion	<u>\$ 992,319</u>

The cost components of the Company's operating leases were as follows for the years ended December 31, 2021 and 2020:

	2021	2020
Operating lease cost	\$ 221,136	\$ 192,166
Variable least cost	122,880	117,356
Total	<u>\$ 344,016</u>	<u>\$ 309,522</u>

Finance Lease Liability

In December 2019, the Company entered into a \$36,580 finance lease agreement for certain equipment. The Company traded in fully depreciated equipment worth \$26,250. The total equipment value of \$62,380 is included in property and equipment. The interest rate implied in the finance lease is 5.4% and the term of the lease is four years.

In December 2021, the Company amended its lease on its MRI Scanner and related service agreement which resulted in a change in classification from a financing obligation to a finance lease (see **Financing Obligation** below).

The MRI scanner is included in property and equipment and the Service Agreement is included as Prepaid Service Agreement. The interest rate implied on the amended lease is 7.0%.

The Company's remaining payments under the terms of the finance leases are as follows as of December 31, 2021:

2022	\$ 378,537
2023	171,372
2024	67,160
Total payments	<u>617,069</u>
Less amount representing interest	<u>(58,235)</u>
Total present value of total payments	558,834
Less current portion	<u>(332,157)</u>
Finance lease liability, net of current portion	<u>\$ 226,677</u>

IMRICOR MEDICAL SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
As of and for the years ended December 31, 2021 and 2020

NOTE 5 – Leases (cont.)

Financing Obligation

On June 1, 2019, the Company entered into a sale leaseback agreement for the purchase of its MRI scanner (\$1,200,000) and related Service Agreement (\$500,000). The term of the lease is 36 months with a monthly rental payment of \$54,865. The lease originally met the requirements to be classified as a financing obligation. It was considered a failed sale leaseback arrangement as the lease agreement included an option to repurchase the related assets for \$425,000 at the end of the lease term, which the Company deemed it was reasonably certain to do. In October 2021, the Company received a proposal from the lessor with an option to extend the lease with favorable terms and reassess the lease term and option to purchase the underlying assets and determined it would no longer elect to exercise the purchase option. On December 8, 2021, the Company executed a revised lease to extend the term of lease for an additional 24 months after the expiration of the original lease. Consequently, the lease no longer qualifies as a financing obligation but is now classified as a finance lease. The Company reassessed the lease term at the time of the receipt of the proposal from the lessor in October 2021 and began accounting for it as a finance lease. When the lease was initially entered into, the interest rate implied in the financing obligation was 21.5%.

NOTE 6 - Commitments and Contingencies

Vendor concentration

Certain components and products that meet the Company's requirements are available only from a single supplier or a limited number of suppliers. The inability to obtain components and products as required, or to develop alternative sources, if and as required in the future, could result in delays or reductions in product shipments, which in turn could have a material adverse effect on the Company's business, financial condition, and results of operations. The Company believes that it will be able to source alternative suppliers or materials if required to do so.

For the year ended December 31, 2021, the Company had accounts payable to one vendor that accounted for 16% of the total outstanding balance. For the year ended December 31, 2020, the Company had accounts payable to two vendors that accounted for 12% and 11% of the total outstanding balance.

Purchase Commitments

At December 31, 2021 and 2020, the Company had \$1,195,602 and \$241,431 in outstanding firm purchase commitments, respectively.

Retirement Plan

The Company maintains retirement plans for its employees in which eligible employees can contribute a percentage of their compensation. The Company contributed \$309,929 and \$170,062 to these plans during the years ended December 31, 2021 and 2020, respectively.

Employment Agreements

The Company has employment agreements with the CEO and senior executives of the Company. The agreements require severance of twelve and six months, respectively, of current annual salary and medical insurance in the event employment is terminated without cause.

IMRICOR MEDICAL SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
As of and for the years ended December 31, 2021 and 2020

NOTE 7 - Stockholders' Equity

Capital Stock Authorized

As of both December 31, 2021 and 2020, the Board of Directors of the Company had authorized 560,000,000 shares of capital stock, consisting of 535,000,000 shares of common stock and 25,000,000 shares of preferred stock.

Common Stock

The Australian Securities Exchange (ASX) uses an electronic system called CHESS for the clearance and settlement of trades on the ASX. The State of Delaware does not recognize the CHESS system of holding securities or electronic transfers of legal title to shares. To enable companies to have their securities cleared and settled electronically through CHESS, depository instruments called CHESS Depositary Interests (CDIs) are issued. CDIs are units of beneficial ownership in shares and are traded in a manner similar to shares of Australian companies listed on the ASX. The legal title to the shares are held by a depository, CDN, which is a wholly-owned subsidiary of the ASX, and is an approved general participant of ASX Settlement.

In February 2020, the Company completed an equity raise on the ASX which consisted of 12,083,333 CDIs representing the same number of shares of common stock at \$1.68 Australian dollars per share for proceeds of \$12,653,221, net of expenses.

During April 2020, 406,849 warrants to purchase common stock were exercised at \$0.73 per share for total proceeds of \$295,425, net of expenses.

In February 2007, the Company issued rights to 7,200,000 shares of common stock (as adjusted for a subsequent stock split) upon the earlier of an acquisition transaction, an initial public offering pursuant to an effective registration statement under the US Securities Act of 1933 (an initial public offering in the US), or the expiration of certain license agreements. The number of shares to be issued was to be reduced for the value of any royalties paid. In April 2020, the agreements related to these rights expired and the Company issued 7,197,634 shares of common stock. The number of shares issued was reduced by 2,366 to reflect the value of royalties paid. The value of the shares was recorded as an expense upon issuance, which was when the liability was fixed and determinable.

During the year ended December 31, 2020, 413,333 options to purchase common stock were exercised at prices ranging from \$0.341 to \$0.60 per share for total proceeds of \$174,195, net of expenses.

In October 2020, the Company completed an underwritten placement on the ASX which consisted of 12,106,383 CDIs representing the same number of shares of common stock at \$2.35 Australian dollars per share for proceeds of \$19,195,477, net of expenses.

In November 2020, the Company completed an underwritten security purchase plan on the ASX which consisted of 659,483 CDIs representing the same number of common stock at \$2.35 Australian dollars per share for proceeds of \$1,088,836, net of expenses.

During January 2021, a total of 120,000 options to purchase common stock were exercised with a portion of the exercise via a cashless exercise. 50,000 options to purchase common stock were exercised at \$0.50 per share for total proceeds of \$23,384, net of expenses. In addition, 70,000 options to purchase common stock were exercised at \$0.50 per share on a cashless exercise basis at a fair market value of \$1.83 per share, resulting in the issuance of 50,995 shares of common stock.

During June 2021, a total of 50,625 options were exercised at \$0.98 per share for total proceeds of \$47,983, net of expenses.

IMRICOR MEDICAL SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
As of and for the years ended December 31, 2021 and 2020

NOTE 7 - Stockholders' Equity (cont.)

During July 2021, a total of 33,639 options were exercised at \$0.52 per share for total proceeds of \$16,479, net of expenses.

In September 2021, the Company completed an equity raise on the ASX which consisted of 16,500,000 CDIs representing the same number of shares of common stock at \$1.00 Australian dollar per share for proceeds of \$11,351,689, net of expenses.

In October 2021, the Company completed a security purchase plan on the ASX which consisted of 999,828 CDIs representing the same number of common stock at \$1.00 Australian dollar per share for proceeds of \$728,071, net of expenses.

Dividend Rights

Subject to the prior rights of holders of all classes of stock at the time outstanding having prior rights as to dividends, the holders of the common stock shall be entitled to receive, out of any assets of the Corporation legally available therefore, any dividends as may be declared from time to time by the Board of Directors. The right to such dividends shall not be cumulative, and no right shall accrue by reason of the fact that dividends are not declared in any prior period.

Voting Rights

The holder of each share of common stock shall have the right to one vote for each such share, and shall be entitled to notice of any stockholders' meeting in accordance with the Bylaws of the Corporation, and shall be entitled to vote upon such matters and in such manner as may be provided by law.

Stock Option Plans

The Company and its stockholders adopted a stock incentive plan (the "2006 Plan") in 2006. The 2006 Plan, as amended on January 26, 2011 by the shareholders, reserved 10,918,500 shares of the Company's common stock for the granting of incentive and nonqualified stock options to employees, directors and consultants. On May 22, 2016, the Company replaced the 2006 Plan with the 2016 Plan, as the 2006 Plan was expiring. The terms of the 2016 Plan were the same as the 2006 Plan. In August 2018, the Board of Directors approved an increase of 500,000 shares to the option pool. On February 14, 2019, the Board of Directors terminated the 2016 Plan and approved the 2019 Plan, reserving 11,418,500 shares of the Company's common stock for the granting of incentive and nonqualified stock options to employees, directors and consultants. On June 4, 2019, the Board of Directors approved an increase of 2,000,000 shares to the option pool and provided that on the first day of each of the Company's fiscal years during the term of the 2019 Plan beginning in 2020, the number of shares of Common Stock available for issuance from time to time under the 2019 Plan will be increased by an amount equal to the lesser of (i) five percent (5%) of the aggregate number of shares reserved under this Plan on the last day of the immediately preceding fiscal year, and (ii) such number of shares determined by the Board (the "Annual Increase"). On April 20, 2020, the Board of Directors approved an increase of 3,470,925 shares to the option pool, which was approved by the shareholders at the Annual Meeting on May 12, 2020. On January 14, 2021, the Board of Directors approved an increase of 844,471 shares to the option pool. Options are granted at a price equal to the closing sale price of a CDI as of the date of grant, converted from Australian dollars to US dollars using the prevailing exchange rate. Generally, vesting terms of outstanding options range from immediate to four years. In addition, some options issued to the executive management team vest upon completion of certain milestones, performance requirements, and market conditions. In no event are the options exercisable for more than ten years after the date of grant. The Company issues new shares of common stock when stock options are exercised.

IMRICOR MEDICAL SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
As of and for the years ended December 31, 2021 and 2020

NOTE 7 - Stockholders' Equity (cont.)

Information regarding the Company's stock options is summarized below:

	Number of Options	Weighted- Average Exercise Price	Aggregate Intrinsic Value
Options outstanding - December 31, 2020	9,963,094	\$ 0.68	
Exercised	(204,264)	0.62	
Cancelled	(225,807)	1.13	
Granted	1,720,483	1.57	
Options outstanding – December 31, 2021	11,253,506	\$ 0.81	\$ 1,202,221
Options exercisable – December 31, 2021	6,762,568	\$ 0.59	\$ 1,127,451
Weighted average fair value of options granted during the year ended December 31, 2021		\$ 0.96	
Weighted average fair value of options granted during the year ended December 31, 2020		\$ 0.58	

As of December 31, 2021, the Company had 1,998,393 shares available for grant under the Plan.

The weighted average remaining contractual life of options outstanding and exercisable was 7.38 and 6.60 years, respectively, as of December 31, 2021.

The intrinsic value of options exercised during the years ended December 31, 2021 and 2020 was \$202,923 and \$306,453, respectively.

The fair value of option awards granted was determined using the Black-Scholes option pricing model utilizing the following assumptions:

	2021	2020
Expected life	5.57-6.95 years	7 years
Volatility	66.16%	68.3%
Risk-free interest rate	1.24%	0.64%
Dividend Yield	0%	0%

The Company reviews its current assumptions on a periodic basis and adjusts them as necessary to determine the option valuation. The expected life represents the period that the stock option awards are expected to be outstanding and is based on an evaluation of historic expected lives from the Company's stock option grants. Volatility is based on historic volatilities of traded shares from a selected publicly traded peer group, believed to be comparable after consideration of size, maturity, profitability, growth, risk and return on investment. The Company did not use its own historical volatility as the majority of stock option grants were issued prior to or in connection with the IPO and the Company has limited volatility history. The risk-free interest rate is based on the yield of constant maturity U.S. treasury bonds with a remaining term equal to the expected life of the awards at the grant date. The expected dividend yield is zero, as the Company has not paid or declared any dividends to common stockholders and does not expect to pay dividends in the foreseeable future. Historical data is used to estimate pre-vesting forfeitures and the Company records stock-based compensation expense only for those awards that are expected to vest.

IMRICOR MEDICAL SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
As of and for the years ended December 31, 2021 and 2020

NOTE 7 - Stockholders' Equity (cont.)

Total stock-based compensation expense resulting from options granted was \$1,149,598 and \$821,952 for the years ended December 31, 2021 and 2020, respectively, and charged to the Company's Statement of Operations as follows:

	December 31,	
	2021	2020
Cost of goods sold	\$ 36,894	\$ -
Sales and marketing	112,220	64,315
Research and development	233,991	296,421
General and administrative	766,493	461,216
	<u>\$ 1,149,598</u>	<u>\$ 821,952</u>

No income tax benefits were recognized related to this compensation expense due to the full valuation allowance provided on the Company's deferred income tax assets.

As of December 31, 2021, the total unrecognized compensation cost related to unvested stock options then outstanding was \$2,344,149. Future stock-based compensation expense is expected to be as follows for the years ending December 31:

	<u>Total</u>
2022	\$ 1,067,451
2023	773,115
2024	403,921
2025	99,662
Total	<u>\$ 2,344,149</u>

Issuance of additional options subsequent to December 31, 2021 could affect future expected amounts.

Stock Warrants

The Company had issued warrants to purchase shares of common stock which are summarized below:

	Number of Warrants	Weighted- Average Exercise Price
Warrants outstanding – December 31, 2019	787,909	\$ 0.73
Warrants cancelled	(381,060)	0.73
Warrants exercised	(406,849)	0.73
Warrants outstanding – December 31, 2020	<u>-</u>	<u>\$ -</u>

During April 2020, 406,849 warrants to purchase common stock were exercised at \$0.73 per share for total proceeds of \$295,425, net of expenses. The intrinsic value was \$46,121. The remaining 381,060 warrants were cancelled.

IMRICOR MEDICAL SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 8 - Income Taxes

The Company has generated both federal and state net operating losses (NOL) of approximately \$59,544,000 and federal and state research and development credit carryforwards of approximately \$1,943,000 as of December 31, 2021, which, if not used, will begin to expire in 2023. The Company believes that its ability to fully utilize the existing NOL and credit carryforwards could be restricted by changes in control that may have occurred or may occur in the future and by its ability to generate net income. The Company has not yet conducted a formal study of whether, or to what extent, past changes in control of the Company impairs its NOL and credit carryforwards because such NOL and credit carryforwards cannot be utilized until the Company achieves profitability. The Company has established a full valuation allowance as of December 31, 2021 and 2020, that offsets the net tax benefits associated with the NOL and credit carryforwards since realization of these tax benefits is not more likely than not.

Income tax expense (benefit) consists of the following for the year ended December 31:

	2021	2020
Current:		
Federal	\$ -	\$ -
State	-	-
	-	-
Deferred:		
Federal	(4,310,000)	(2,516,000)
State	(1,104,000)	(625,000)
	(5,414,000)	(3,141,000)
Deferred tax asset valuation allowance	5,414,000	3,141,000
Total provision (benefit)	\$ -	\$ -

Components of deferred income taxes are as follows as of December 31:

	2021	2020
Deferred tax assets (liabilities):		
Net operating loss carryforwards	\$ 15,481,000	\$ 10,752,000
Research and development credit carryforwards	1,943,000	1,498,000
Stock-based compensation	222,000	185,000
Accrued expenses	363,000	17,000
Deferred revenue	178,000	153,000
Prepaid expenses and other assets	(74,000)	(73,000)
Foreign currency exchange	(55,000)	18,000
Depreciation and amortization	16,000	110,000
Gross deferred tax assets (liabilities)	18,074,000	12,660,000
Less valuation allowance	(18,074,000)	(12,660,000)
Net deferred tax assets	\$ -	\$ -

The change in the valuation allowance was \$5,414,000 and \$3,141,000 for the years ended December 31, 2021 and 2020, respectively.

The effective tax rate for the year ended December 31, 2021 differs from the federal and state statutory tax rates mainly due to the change in full valuation allowance, incentive stock option expense, and research and development credits.

IMRICOR MEDICAL SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
As of and for the years ended December 31, 2021 and 2020

NOTE 8 - Income Taxes (cont.)

The Company has recognized a reserve of approximately \$486,000 and \$374,000 for uncertain tax positions which was recorded directly against the valuation allowance as of December 31, 2021 and 2020, respectively. If recognized, these benefits would favorably impact the effective tax rate.

The tax years from inception through December 31, 2021 remain subject to examination by all major taxing authorities due to the net operating loss carryforwards. The Company is not currently under examination by any taxing jurisdiction. In the event of any future tax assessments, the Company has elected to record the income taxes and any related interest and penalties as income tax expense in the Company's Statement of Operations.

Changes in tax laws and rates may affect recorded deferred tax assets and liabilities and our effective tax rate in the future.